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# **Local Governance Support Program (LGSP)**

## **LOCAL ECONOMIC DEVELOPMENT Cluster Technical Working Session**

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# Local Governance Support Program (LGSP)

## Local Economic Development – Technical Working Session

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# LOCAL ECONOMIC DEVELOPMENT

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## **MODULE OBJECTIVE**

The module seeks to provide guidance to municipal councillors as a way of empowering them to promote and implement Local Economic Development programs, reconstruct and develop the social and economic life of the communities they serve, thereby contributing to the national strategy to create job opportunities, promote Black Economic Empowerment, and push back the frontiers of poverty.

## **MODULE OUTCOMES**

Upon completion of the module, the councillors will be in a position to:

- Distinguish between the three waves of local economic development (LED).
- Define and place into context the concept of LED.
- Discuss the importance of LED and the role of the municipality in LED
- Discuss the specific roles councillors can play in LED.
- Distinguish between the roles of the three spheres of government in LED.
- Identify and discuss the factors impacting on LED
- Explain how municipalities can meet the strategic challenges facing LED
- Assist in the preparation of LED plans.
- Discuss what action needs to be taken to promote LED in especially small towns.
- Identify various projects that can be undertaken as LED initiatives.
- Identify relevant LED stakeholders and discuss their roles and significance.
- Identify and discuss various pitfalls that need to be considered when planning for LED.
- Assist their municipalities with LED initiatives within the communities they serve.
- Discuss the steps that need to be taken to address poverty alleviation in the communities they serve.
- Discuss the various institutional options for LED.

## STUDY UNIT 1: OVERVIEW OF LOCAL ECONOMIC DEVELOPMENT

### 1. INTRODUCTION

Local government has been described as the “hands & feet” of Reconstruction and Development in South Africa. In the absence of effective local delivery bodies, government is powerless and cannot implement its policies and provide the services to which people are entitled. The municipality is at the forefront of service delivery and must play the lead role in local economic development.

The Republic of South Africa Constitution Act lays the foundation for local economic development by establishing the principle of developmental local government, which is defined as :

“Local government committed to working with **citizens and groups** within the community to find **sustainable** ways to meet their **social, economic and material needs**, and **improve the quality of their lives**”

In terms of the White Paper on Local Government and the Municipal Structures Act and the Municipal Systems Act, municipalities must exercise their powers and functions in such a way that they maximise the impact on social development, meet the needs of the poor and ensure the growth of the local economy.

Local economic development is an approach that entails the mobilisation of local role players, resources and interests to realise the economic development opportunities of a local area. Local economic development as an approach, increased in significance internationally and locally in the last decade, in response to the pressures brought about by globalisation. Its popularity as an approach to economic development coincided with the global trend of decentralising power from national to local government. Local economic development was first implemented in developed economies during the 1960s and was only implemented in developing economies in the late 1980s.

According to the World Bank Group, LED has since the 1960's passed through three broad stages of development, which have been referred to as the three 'waves' of LED. In each of these waves governments and the private sector have developed a better understanding of what works and what doesn't. Today LED is in its 'third wave'. Although LED has moved through each of these waves, elements of each wave are still practiced today.

The following table summarizes the three waves of LED: Local Economic Development. The World Bank Group, pages 3-5

| <b>Three Waves of Local Economic Development</b> |  |  |
|--|--|--|
| <b>Wave</b>                                      | <b>Focus</b>   | <b>Tools</b>   |
| <b>First:</b><br><br><b>1960s to early 1980s</b> | During the first wave the focus was on the attraction of: <ul style="list-style-type: none"> <li>• Mobile manufacturing investment attracting outside investment, especially the attraction of foreign direct investment.</li> <li>• Making hard infrastructure investments</li> </ul> | To achieve this cities used: <ul style="list-style-type: none"> <li>• Massive grants</li> <li>• Subsidized loans usually aimed at inward investing manufacturers</li> <li>• Tax breaks</li> <li>• Subsidized hard infrastructure investment</li> <li>• Expensive "low road" industrial recruitment techniques</li> </ul> |
| <b>Second:</b><br><br><b>1980s to mid 1990s</b>  | During the second wave the focus moved towards: <ul style="list-style-type: none"> <li>• The retention and growing of existing local businesses</li> <li>• Still with an emphasis on inward investment</li> </ul>  | To achieve this cities provided: <ul style="list-style-type: none"> <li>• Direct payments to individual businesses</li> <li>• Business incubators/workspace</li> </ul>   |

|                                  |   |   |
|----------------------------------|---|---|
|                                  | <p>attraction, but usually this was becoming more targeted to specific sectors or from certain geographic areas</p>   | <ul style="list-style-type: none"> <li>• Advice and training for small and medium sized firms</li> <li>• Technical support</li> <li>• Business start-up support</li> <li>• Some hard and soft infrastructure investment</li> </ul>  |
| <b>Third: Late 1990s onwards</b> | <p>The focus then shifted from individual direct firm financial transfers to making the entire business environment more conducive to business. During this third (and current) wave of LED, more focus is placed on:</p> <ul style="list-style-type: none"> <li>• Soft infrastructure investments</li> <li>• Public/private partnerships</li> <li>• Networking and the leveraging of private sector investments for the public good</li> <li>• Highly targeted inward investment attraction to add to the competitive advantages of local areas</li> </ul> | <p>To achieve this cities are:</p> <ul style="list-style-type: none"> <li>• Developing a holistic strategy aimed at growing local firms</li> <li>• Providing a competitive local business environment</li> <li>• Supporting and encouraging networking and collaboration</li> <li>• Encouraging the development of business clusters</li> <li>• Encouraging workforce development and education</li> <li>• Closely targeting inward investment to support cluster growth</li> <li>• Developing an attractive</li> </ul> |

|  |  |   |
|--|--|---|
|  |  | business environment<br><ul style="list-style-type: none"> <li>• Supporting quality of life improvements</li> </ul> |
|--|--|---|

Councillors have a most important role to play in local economic development, which was reinforced by President Nelson Mandela at the Opening Address to Parliament on 7 February 1997 when he said:

*“Insofar as local government is concerned, there is nothing as urgent and as critical as the training of councillors. Their ability to raise funds and manage them, to play their role in multi million rand housing and infrastructure programs, to attract investments, to deal with the distortions of the apartheid era and to work with communities in partnership for development, are skills that should be built more intensively.”*

The Constitution urges local government to promote the social and economic development of the community. For this purpose a new generation of local policies and programmes, aimed specifically at job creation and poverty alleviation was developed.

The following is an extract from the Report on the LED Workshop held in Welkom, 14 – 16 July 2002 Local Economic Development in Action: Critical Reflections on our Experience, Edited By Bev Taylor, and reinforces the governments commitment to LED.

#### **“DPLG – Pretoria**

Makhosana Masezane – LED Deputy Director, Policy.

Policy themes of the Department of Provincial and Local Government (DPLG) relating to LED were outlined:

Rural development and urban renewal were key strategies for evening out development in SA. Government supports LED in all municipalities with the intention of addressing the needs of the poor and marginalized communities. Partnerships between government, business, labour and organized civil society are encouraged for LED implementation.

Local government has an important role to play in identifying and using local resources for opportunities to promote economic growth and employment. Successful LED depends on local partnerships as well as on national and regional structures to promote and support local initiatives.

Funding for LED programmes is available mainly through the Local Economic Development Fund (LEDf). Other financial sources that overlap with the LED programmes are: Social Plan Fund; Funding for developing and maintaining services and infrastructure; Department of Trade & Industry (DTI), Industrial Development Corporation (IDC) and other related agencies; IDC and NEDLAC – for schemes to enhance industry performance; DTI, RIDB, Khula, CGIC – support for SMMEs; Research and Development.”

Now that we are aware of the critical role municipalities must play in LED we need to establish what we mean by local economic development so that we can focus our full attention and energies on promoting local economic development in our communities. Unfortunately local economic initiatives often look encouraging on paper but actually implementing LED programmes sometimes ends in disappointment, and a small net increase in economic activity. It is hoped that this module will paint a more realistic picture of what needs to be done by councillors and municipal officials and other role players, to promote and implement local economic development in their municipalities. A discussion on what LED embraces follows.

## **2. WHAT IS LOCAL ECONOMIC DEVELOPMENT?**

Although many definitions could be developed on what local economic development is, in its simplest form it could be said to be:

**A locally driven process designed to identify, harness and utilise *local resources*, where possible, to stimulate the economy and create new job opportunities.**

LED is defined by the World Bank as:

“An approach towards economic development by which local people work together to achieve sustainable economic growth and development that brings economic benefits and an improved quality of life to all in the local municipal area, be it urban, rural, regional or sub regional in nature or scope”.

In analysing these definitions and expanding on it we could say that LED is:

- A direct result of local initiative.
- Driven by local stakeholders.
- Involves identifying and primarily utilising local resources.
- Creates new job opportunities and in turn reduces crime and alleviates poverty.
- Improves the socio economic life of the community; and
- Since it is locally drive also results in Black economic empowerment.

Local Economic Development is therefore aimed at creating,

- localized employment opportunities,
- alleviating poverty in the process and
- providing opportunities for economic development in the area to the benefit of all inhabitants.

Local economic development is about competitiveness, about companies locating to areas in which they know they can make a profit, where the infrastructure is conducive to good business and where local resources are available and where there are sufficient markets for the goods or services. It, however, also encompasses the development of small businesses, capacity building, broad based black economic empowerment and the improvement of the socio economic life of the community including the fight against HIV/Aids. Municipalities must therefore assist in creating opportunities for this to happen.

LED encompasses many different disciplines, such as

**planning,**  
**economics,**  
**marketing.**

It also encompasses many municipal functions including planning, infrastructure provision, real estate and finance. The practice of local economic development can be undertaken on many different scales. A municipality often pursues LED strategies for the benefit of their entire area. However, individual communities, and thus individual areas within a municipality's jurisdiction can also pursue LED strategies to uplift their own communities. These are most successful if pursued collectively.

LED entails the participation of government, the private sector, labour and community organisations working together to improve the local economy. It focuses on enhancing competitiveness, thus increasing sustainable growth and development that is inclusive

“In essence, LED is about communities continually upgrading their business environments to improve their competitiveness, retain jobs and improve incomes. Local communities respond to their LED needs in many ways. There are a wide variety of LED initiatives including:

- Ensuring the local business environment is conducive to major businesses and sectors in the area.
- Supporting small and medium sized businesses (SMMEs)
- Encouraging new enterprise.
- Attracting investment from elsewhere (within the country and internationally).
- Investing in physical (hard) infrastructure.
- Investing in soft infrastructure (including human resource development, institutional support systems and regulatory issues)
- Supporting the growth of particular clusters of businesses.
- Targeting particular parts of the city for regeneration or growth (spatial targeting).
- Survivalist (often informal) businesses targeting certain disadvantaged groups.”

Local Economic Development. The World Bank Group – p 3

### **3. OBJECTIVES AND PRINCIPLES OF LED**

The goal of local economic development in South Africa is to maximise the economic potential of all localities in the country through increased economic growth and employment creation and to enhance the resilience of the macro-economic growth through local economic development actions within the context of sustainable development.

The main objectives are:

- To create employment.
- Co-ordination and integration.
- To stimulate economic development.
- To stimulate local resources and to utilise connections between the social, cultural, environmental and economic linkages.
- Partnership establishment.
- Capacity building.
- Broad Based Black Economic Empowerment
- Fighting HIV/AIDS.

### **3. A BROAD OVERVIEW OF LED IN SOUTH AFRICA**

According to Etienne Nel, the author of the article Economic Restructuring and Local Economic Development in South Africa,

“LED in South Africa occurs at a variety of levels and assumes widely differing characteristics. It is clearly more than the business and large city enterprises which traditionally characterized thinking on this topic. Apart from enterprises such as the business-orientated National Business Initiative, there is a plethora of, for instance, CBO and NGO initiatives in local areas, which also promote social and economic upliftment.

Four variants of LED currently feature in South Africa (Nel, 1998):

(a) Formal local government initiatives which parallel traditional western thinking and, to a large degree, overlap with government thinking on the topic as detailed in its Local Government White Paper

(b) Community-based/small town initiatives, which often develop as a result of NGO facilitation and support. Overlap with the government's Rural Development Framework (RSA, 1997) is evident.

(c) Section 21 development corporations i.e. companies that promote local development within a selected spatial area, but 'not for gain'.

(d) 'Top-down' LED in which government, usually at the provincial level, and/or various national organizations attempt to catalyze and support local initiatives."

LED is a new approach to economic development that augments and supports and leverages macro-economic development and growth at a local level. This approach has achieved great success internationally and in SA.

LED has been recognised by both government and other stakeholders as providing a strategic response to both the First and Second Economies of our country. LED contributes to the local level to generate the resources by which to confront the challenges of the Second Economy.

National macro economic policies and strategies have since 1994, been successful in addressing most of the ills of the SA economy. SA has achieved a level of macro economic stability not seen in the country for 40 years. These advances create opportunities for real increases in expenditure on social services, reduce the costs and risks of all investors and therefore lay the foundation for increased investment and growth.

- 

There are, however key macro economic challenges that have emerged:

- The rate at which new jobs are created is insufficient to absorb the increasing levels of unemployment.
- Inadequate skills of South African's to meet the demands of the new economy that is service and knowledge driven.
- Poverty levels and unemployment remain high.

- The income and skills gap between white and black South Africans remains extremely high - South Africa is still characterized by two parallel economies. It is national priority to achieve broad based sustainable economic growth and development through job creation, poverty alleviation, reduction of inequality and the overall growth of the wealth of the country.

At this stage we may ask ourselves “what has the government done to meet these challenges and to improve the skills base of the South African workforce and secondly how is it going to alleviate the plight of the poorest of the poor in the country?

In response to the first question, it is pleasing to note that the introduction of the concept of learnerships in terms of the Skills Development Act, for particularly the unemployed will add significantly to increasing the skills base of the South African workforce. More and more municipalities are implementing learnerships for unemployed graduates and matriculants to address the skills shortages and priorities identified nationally, sectorally and at the local workplaces.

Provincial and National government departments as well as private businesses enterprises of varying sizes have also introduced learnerships for their staff as well as for unemployed persons. Moneys for such learnerships have generally been made available by the Department of Labour through the National Skills Fund, which Fund derives its income from a portion of the levies paid by employers to their relevant Sector Education and Training Authorities.

In response to the second question, President Mbeki in his state of the nation address at the opening of the third democratic parliament of South Africa on 21 July 2004, identified the struggle against poverty and underdevelopment as the core challenge facing South Africa, and spelt out a comprehensive program of action including deadlines to the government aimed at growing the economy to the benefit of all South Africans.

In an article which appeared in the Witness of 22 May 2004 it was reported that :

“In a detailed and highly business like state of the nation address to a joint sitting of parliament, Mbeki pledged to help grow the first and second economies that co-exist in South Africa and to build a social security net to help fight poverty. The first economy is the first world economy, which employed people with access to money and jobs. The second economy is the poor people lacking access to money and employment.”

During the address the President indicated that the struggle against poverty rests on three pillars.

- Encouraging growth and development of the first economy, increasing its possibility to create jobs.
- Implementing a program to address the challenges of the second economy.
- Building a social security net to meet the objective of poverty alleviation.

The program of action on the first economy will be aimed at raising the rate of investment in it and reducing the cost of doing business in South Africa. In this respect the government will smooth the process of restructuring the countries ports to bring in new investment and lower the costs of moving imports and exports.

The government will also pay particular attention to the growth of the small and medium business sector by carrying out a comprehensive review of the regulatory framework that impacts on this sector, to facilitate its further growth and development.

During the address the President also pledged to speed up the process of skills development by engaging all the Sector Education and Training Authorities to increase the uptake of learners and focus on skills in short supply.

The Expanded Public Works Program which will provide work for thousands of unemployed will also, as part of the government's initiative, be launched in all provinces by the beginning of September 2004

#### **4. THE IMPORTANCE OF LOCAL ECONOMIC DEVELOPMENT**

Local economic development is extremely important for municipalities, firstly because they are statutorily mandated within the concept of developmental local government to play the leading role in local economic development and secondly because of the increased rates base arising from the establishment of businesses or industries within their areas.

However, viewed on a larger scale LED is important because it:

- Creates jobs and employment opportunities.
- Increases income levels and enables people to pay for services.
- Broadens the tax and revenue base of a municipality.
- Enables the municipality to provide more and better services and facilities.
- Leads to the establishment of Black Economic Empowerment.
- Reduces the crime rate.
- Alleviates poverty, builds capacity and in turn addresses the high incidence of HIV/Aids.
- Improves the socio economic life of the community.
- Concentrates on human resource potential and opportunities for development.
- Builds new institutions for sustainable economic development, and
- Promotes linkages between developed and under developed areas.

#### **5. THE ROLE OF MUNICIPALITIES IN LED**

Municipalities must play a critical role in the promotion of LED by virtue of the powers and functions, which have been bestowed upon them by the Constitution, the Municipal Systems Act and other legislation. In South Africa, municipalities have always played an important role in local economic development by:

- Employing residents of their municipalities.
- Purchasing goods and services being produced by local investors.
- Developing infrastructure, and
- Regulating the development of land for residential, commercial and industrial development.

Municipalities must, however, play a continuing and more active role in LED if they wish to attract, retain and develop existing businesses to a greater degree.

All projects must be supported by well-developed plans. It must also be stressed that municipalities are the lead implementing agents in LED. Local economic development plans emanating from the IDP's should inform the Provincial Growth and Development Strategy (PGDS) which in turn should be aligned to all LED plans within district and local municipalities.

The White Paper on Local Government reinforces the mandate to municipalities to become involved in LED through the concept of "Developmental Local Government " which is defined as

*"Local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs, and improve the quality of their lives"*

The powers and functions of local government should therefore be exercised in a way that has maximum impact on the social development of communities – in particular meeting the basic needs of the poor – and of the growth of the local economy. Local government is not directly responsible for providing jobs. It is, however, responsible for taking active steps to ensure that the overall economic and social conditions of the locality are conducive to the creation of employment opportunities.

Provision of basic household infrastructure is the central contribution made by local government to social and economic development. However, simple changes to the following existing procedures could have a significant impact on local economic development with little or no additional costs.

- Affirmative procurement policies.
- Linking municipal contracts to social responsibility.
- Speeding up approval procedures, or
- Proactively identifying and releasing land for development
- Providing training on small business establishment and entrepreneurship.

We must also remember that very few businesses will establish themselves or relocate to an area based only on the advantages of the particular town or city.

Entrepreneurs will also look critically at the surrounding areas to establish what impact these will have on their businesses. Municipalities should through their integrated development plans ensure that the region as a whole is investor friendly.

“Local government plans that should influence, and be influenced by, the local economic development agenda should include:

- The municipalities strategic plan.
- Planning, zoning, resource management and land use development strategies
- Transportation strategies.
- Leisure and recreation strategies.
- Housing strategies.
- Anti-poverty strategies.
- Education and training strategies.
- Crime and public safety strategies.
- Environmental strategies and Agenda 21.
- Waste disposal and pollution control strategies” Local Economic Development. The World Bank Group –page 5.

The approach adopted by the Durban Metro to promote local economic development is apparent from the following extract from the Report on the LED Workshop held in Welkom, 14 – 16 July 2002 Local Economic Development in Action: Critical Reflections on our Experience, Edited By Bev Taylor,

**“Durban**

*Phumzile Ngwenya – Durban Metro Council.*

Durban’s Long Term Development Plan (LTDP) was adopted to guide the transformation process with three key delivery thrusts:

- Meet basic needs.
- Build skills and technology.
- Strengthen the economy.

Major challenges have been to:

- meet backlogs on basic services;
- address weak economic growth, poverty and unemployment; HIV/AIDS; crime and insecurity;
- inclusion of almost half a million rural residents within the newly demarcated municipal area; and the
- lack of customer focus in government.

Based on business and community feedback, the city engaged in 5 key programmes and projects to address LED.

- Enhancing and repositioning the “platform’ for economic growth by further upgrade development and support for existing developments such as inner city development, Point Waterfront development; coastal tourism resources.
- Providing service and support to key customers, e.g. sub-regional business service centres.
- Industrial sector support, e.g. tourism marketing, and improving logistical support for manufacturing.
- Empowerment, e.g. overhauling Council’s procurement system, enhancing existing SMME support networks.
- Partnerships and capacity building, e.g. initiate formalisation of key stakeholder partnership structures to drive economic programmes.

Lessons were summarized as:

- Institutional structures (internal and external) have at times been too elaborate and therefore not sustainable.
- Moving the City to sustainable budgeting is very difficult under the present local government funding system.
- Maintaining internal capability to add value to business processes (at all levels) is not easy.
- Partnerships are very important and need constant maintenance work – ownership of economic development programmes needs to shift to stakeholders to ensure it is a City-wide programme, not a City Council programme.
- Extensive project delivery focus has been useful to build development experience BUT needs to be balanced with macro-initiatives to help reposition the economy.

- An ambitious city programme requires stakeholder support and stakeholder support rests on tangible local action.”

Since municipalities must become intimately involved in Local Economic Development it is considered appropriate that councillors also be alerted to those policies, strategies and programs that do not work but yet are still vigorously pursued both in South Africa and abroad. According to the article *Local Economic Development: The World Bank Group*, page 18

“Unfortunately there are countless examples of failed LED strategies and projects. These include:

- Expensive untargeted foreign direct investment marketing campaigns.
- Supply-led training programs.
- Excessive reliance on grant-led investments.
- Over-generous financial inducements for inward investors (not only can this be an inefficient use of taxpayers money, it can breed considerable resentment amongst local businesses that may not be entitled to the same benefit).
- Business retention subsidies (where firms are paid to stay in the area despite the fact that financial viability of the plant is at risk).
- Reliance on "low-road" techniques, e.g., cheap labour and subsidized capital.
- Government-conceived, -controlled, and -directed strategies.”

## **6. THE SPECIFIC ROLE OF COUNCILLORS IN LED**

Councillors in their personal and collective capacities can also contribute significantly to Local Economic Development. However, their sphere of influence can be increased if they fully understand the role they need to play in local economic development, which can be summarised as follows:

### **Leadership**

Councillors can achieve great success on their own. However, when acting in cooperation with other councillors, greater success can be achieved, both for ones personal gain and that of the community at large.

This cooperation can include every one from the Chamber of Commerce to the smallest community organisation. It takes strong leadership to mobilise the commitment and participation of these stakeholders in pursuing efforts to support economic growth. As the elected representatives for the entire community, councillors can demonstrate their leadership by serving as champions for economic growth and development.

To play this role, councillors must develop a clear understanding of the economic conditions and comparative advantages in their locality. Strategic decisions will be required on budget priorities and revenue levels and the ability to imbue pride, generate public support and community ownership of economic development will be very important.

In addition to providing leadership, other important roles for councillors in LED include:

**Policy maker.** Through their ability to make policy, councillors can help ensure that small businesses have access to the tender process, prevent regulations and bylaws from becoming barriers to growth and investment, create streamlined approval processes for investment and development projects and assist in the training and capacity building projects of local NGO's.

**Entrepreneur.** As owners of land and buildings, municipalities can explore the commercial potential of these assets. Often these assets are left vacant or under-utilised without calculations of the costs to the local economy. Municipalities can act as entrepreneurs to maximise the commercial potential of their land and buildings, parades, open public spaces, beaches, caravan parks, roads, reserves and pavements. Councillors can explore this potential by involving the private sector and other stakeholders.

**Promoter.** Councillors can promote economic development by creating a positive image of their town or city. An effective way to do this is to establish a team of key councillors and officials to meet with investors, businesses, trade delegations and others to highlight the strengths and opportunities of their locality.

**Catalyst.** Councillors can take actions that catalyse new development initiatives for example, by releasing land and planning infrastructure programs which encourage development in deteriorating and underdeveloped areas.

New business location and expansion can be catalysed by providing serviced sites. In addition, municipalities can creatively utilise their facilities for major sporting and cultural events to maximise and increase the localities visibility and image.

**Lobbyist.** Councillors can also lobby national and provincial government for policies and programmes that benefit their localities. These lobbying activities can often be conducted through local government associations. (Adapted from IRI 1998 p 3-4)

## **7. WHERE DOES LED FIT INTO THE ORGANISATIONAL STRUCTURE**

There is no one answer to where LED should fit into the organisational structure of a municipality, as this would differ from municipality to municipality. LED definitely requires political support and should become the responsibility of every councillor as he/she goes about his/her daily work.

The location of LED will depend on the IDP of the municipality and the resources, skills, and capacity it has at its disposal. In more established municipalities, LED may be driven by a separate directorate (e.g. metros) yet in smaller and less resourced municipalities LED may be the responsibility of the municipal manager or the IDP manager. No matter where LED is placed in the municipality it is critical for councillors to ensure that the roles and responsibilities of those persons in charge of LED are clearly defined. It is also imperative that LED is clearly linked to Key Performance Indicators so that the progress with LED initiatives can be clearly monitored, evaluated and reviewed.

## **8. THE ROLE OF PROVINCIAL AND LOCAL GOVERNMENT IN LED**

The fact that the Department of Provincial and Local Government has established a dedicated LED component bears testimony to its commitment to assisting municipalities in promoting LED in their communities. However, there is still some uncertainty as to the extent to which the national and provincial government departments will become involved in the nuts and bolts of LED in municipalities across the country. It would appear that their involvement might be limited to formulating policies around local economic development, spelling out the roles and responsibilities of all three spheres of government in the process.

Guidelines around the preparation of business plans for LED for funding from national government may also be addressed by either the national or provincial government departments. The following is an extract from a draft paper prepared by the Department of Provincial and Local Government, which sets out its views on LED.

“From central government's perspective, the most important objectives for municipal LED are job creation, sustainable urban and rural development, and explicitly pro-poor approaches within a holistic LED strategy. The LED approach promoted in this policy paper is innovative, creative and re-distributive. LED is to be broadened and deepened to meeting, first and foremost, the needs of the poor, women, children, disabled and people living with HIV/Aids. Within newly-demarcated districts, small towns should be given higher priority.”

In other words, in the perspective of the Department, LED is bringing together employment policy, urban development policy, rural development policy, social policy, family policy and health policy. In other sections, the document also includes economic policy in this collection.

In terms of the DPLG document, LED is viewed as emanating from the IDP. In other words, LED is recognised (internationally as well) to cut across various sectors that impact on the local economy. These sectors therefore include infrastructure, environmental issues, transport, tourism, etc

Whilst the Department of Provincial and Local Government may at present not be directly involved in LED, it has established PIMMS centres in almost all district municipalities, which have helped the district, and local municipalities in the area with the development of the Integrated Development Plans. In most instances LED is linked with the IDPs. The PIMMS centres are now taking an active part in promoting LED as part of the IDP process.

## **9. INTERNATIONAL APPROACHES TO LOCAL ECONOMIC DEVELOPMENT**

Municipalities around the world have taken a number of approaches to economic development, which we will discuss briefly hereunder. Councillors need to take cognisance of these approaches so that they may deliberate on what they consider to be the best approach for their municipality.

In deciding on the approach they wish to advocate, they need to be mindful of the comments expressed by the World Bank Group in paragraph 5 regarding LED initiatives that have failed.

The key approaches can be distinguished as follows:

The **Traditional** approaches assert that the key to prosperity is attracting (primarily manufacturing) investment through concessions such as tax breaks, cheap land, reduced rates, and even direct financial rewards in return for locating in the area.

The **Entrepreneurial-Competitive** strategies emphasise the importance of local municipal competitive benefits and small businesses assistance with job creation.

The **Urban Efficiency** proponents argue that municipalities should raise urban productivity, in part by lowering the costs of living and doing business in the locality.

**Human Resource Development** is also identified as a key focus for local economic development strategies. (Train the people as entrepreneurs so that can they start their own businesses)

The **Community-based** strategies emphasise the importance of working directly with low-income communities and their organisations.

The **Progressive** approaches explicitly aim to link profitable growth and redistributive development.

Research conducted by Jörg Meyer-Stamer, (see [www.mesopartner.com](http://www.mesopartner.com) ISSN 1613-298X) identified the following inherent problems in LED initiatives in developing countries.

**“Why is it that LED is not as successful as one might expect?”**

Based both on my research and my practical experience, I would argue that LED initiatives in developing countries suffer from four typical inherent problems:

- A strategy - and planning-driven approach to LED, driven by municipalities whose capacities are already overstretched.
- Confusion between community development and LED. Any successful LED initiative is based on the involvement of the local community. But LED is about creating favourable conditions for business and alleviating local market failure, whereas community development is about health, housing, education, crime and support for the disadvantaged.
- An unclear theoretical and conceptual background for LED, and confusion between business and LED. LED initiatives ought to enable private business. They must not substitute for it.
- A profound confusion about good practice in terms of governance of LED: Should there be a dedicated agency? What is the respective role of the public and the private sector? How should they co-ordinate their efforts?

I tend to argue that bottom-up, action-driven participatory approaches are more promising than approaches which presuppose lots of institution - and capacity - building before anything practical happens, and that action-oriented approaches are more promising than approaches which put huge re-sources in terms of time and money into analysis before any implementation happens.

In my view, it is an open question to what extent localities in developing countries can learn, in terms of an effective institutional setting and process management, from the decades-long experience of industrialised countries. It is probably more advisable to learn from earlier experiments in decentralized development promotion, such as the not-too-successful integrated rural development programs.”

## 10. BUILDING BLOCKS FOR LOCAL ECONOMIC DEVELOPMENT

The following issues have been identified as the building blocks for local economic development. All stakeholders including the municipality must therefore **attract** investments, **lead** by example, **build** skills and expertise and **circulate** money within the local economy, as set out in more detail in the table hereunder.

|  |  |
|--|--|
| <b><i>Attract</i></b> <ul style="list-style-type: none"><li>• Production</li><li>• Consumption</li><li>• Government &amp; Finance</li><li>• National Surplus</li></ul>                     | <b><i>Lead</i></b> <ul style="list-style-type: none"><li>• Good Governance</li><li>• Efficiency</li><li>• Economic Strategy</li><li>• Spatial Plan</li></ul> |
| <b><i>Build</i></b> <ul style="list-style-type: none"><li>• Skills &amp; Institutions</li><li>• Entrepreneurship</li><li>• Trust &amp; Participation</li><li>• Information Flows</li></ul> | <b><i>Circulate</i></b> <ul style="list-style-type: none"><li>• Buy Local</li><li>• Cross-subsidise</li><li>• Linkage</li><li>• Local Partnerships</li></ul> |

## **STUDY UNIT 2: PLANNING AND IMPLEMENTING LED**

### **1. INTRODUCTION**

In this study unit we will discuss a number of issues that a municipality will have to consider in the process of planning and implementing its LED initiatives. We will commence with analysing the factors impacting on LED initiatives, the strategic challenges, and the steps to be taken in regard to business retention, expansion and attraction, how to go about marketing the municipality as a investor friendly and attractive municipality and the legal issues that need to be taken into account in planning LED initiatives. The different funding options for LED will also be considered.

### **2. FACTORS IMPACTING ON LOCAL ECONOMIC DEVELOPMENT INITIATIVES**

Critical factors that will impact on municipalities' ability to plan and implement their LED objectives include:

#### **2.1 *Institutional set up of government structures and the alignment of policies and programs.***

Clearly all three spheres of government have to be involved in the promotion of local economic development. Unfortunately in many provinces these structures, whilst they may have been established, are still wrestling with policy issues around LED. The Department of Provincial and Local Government is, however, in consultation with the provincial departments responsible for LED, in the process of developing policy guidelines that will clearly spell out the functions and responsibilities of all three spheres of government. It is nevertheless considered that the nuts and bolts of LED will remain with the municipalities. Municipalities therefore need to work closely with their provincial departments in regard to LED initiatives so that they are properly coordinated and planned.

In many municipalities the structures and designation of persons responsible for LED have also not been clearly defined. In the larger municipalities and metro's it is clearly viable for a designated component to be established for LED whilst in the smaller municipalities such function could possibly resort under the responsibility of the IDP manger.

Municipalities need to be proactive in the process and develop their own policies and processes in regard to LED initiatives so that the responsible persons or structures can be held accountable.

## **2.2     *Balanced LED plans***

The LED plans must create a balance between the growth and development demands on the resources of the community and the integration thereof into the Integrated Development Plans.

## **2.3     *Support systems for entrepreneurial institutions***

Training and support will have to be provided to SMME's and emerging contractors to capacitate them to professionally conduct their chosen activities, whether these are in the construction, IT or whatever industry and secondly in responding to the procurement requirements of the national, provincial or municipal departments or any other enterprises wishing to engage service providers. If the municipality on its own cannot provide such assistance they should explore the possibility of involving the local chambers of commerce or industry or any other business organisation. NGO's and CBO's may also be in a position to assist.

## **2.4     *Information on Economic Development Opportunities***

It is absolutely critical that the municipality keeps abreast of any economic development opportunities and constraints faced by the local industry. We will later on in this Study Unit discuss the establishment of a LED team which must consist of high profile people and technical experts who, as part of their responsibility must engage in networking on a local, regional and national basis to explore any development opportunities that present themselves.

Care must also be taken to keep the local business community happy, as it is often far more difficult to attract new investors than to retain and encourage existing investors to expand their enterprises.

During the networking process the LED team will obviously gather a lot of information and statistics on possible opportunities and care must be taken that this information is analysed and interpreted correctly, as decisions based on unreliable information or insufficient information could spell disaster for a community. Business ventures are attracted to the municipality must be sustainable.

## **2.5 *People and Socio Economic Focus.***

Although any investment is better than none, developments that are labour intensive is what the country with its high unemployment rate, requires at the moment. Municipal marketing strategies to attract investors should therefore be directed at those that would bring labour intensive industries to the municipality.

This would lead to an increased injection of money in the form of wages to especially the poor, which in turn would lead to a reduction in poverty and an improvement in the quality of life of the community. The employment of a large number of people also has a ripple effect through the community resulting in an increase in demand for services and goods, which often create both formal and informal job opportunities.

## **2.6 *Marketing of the municipality as a haven for investment***

Investors are attracted to municipalities that have the basic infrastructure to support their industries, that have a market for their products or services and that have the local labour and expertise available to fill the job vacancies. Municipalities must therefore create an environment that satisfies the needs of investors and then go on a marketing campaign to attract business to their areas. However it is true that many municipalities are presently not well positioned to attract business because of poor infrastructure and a largely unskilled labour force.

In these instances their marketing strategy must focus on the potential of the area and be reinforced by visible signs that the municipality is making the area more investor friendly. Municipalities with poor infrastructure may also find it easier encouraging existing businesses to expand their businesses rather than spending all their resources on targeting new infrastructure development.

## **2.7 *Human Resource Development***

Municipalities across the country have now been given a golden opportunity to involve themselves in skills development for the unemployed at practically no cost to the community. Money is available from the National Skills Fund through the Department of Labour for learnerships for the unemployed.

As already indicated in Study Unit 1 a number of the larger municipalities across the country are now implementing learnership programs, which will hopefully also extend to the medium and smaller municipalities. In addition to functional skills that can be acquired through learnerships, every effort should also be made to provide entrepreneurial training to aspiring entrepreneurs.

## **2.8 *Building partnerships***

Neither the national, provincial or local sphere of government viz. the municipalities can independently initiate and sustain LED initiatives. In terms of the constitutional mandate of municipalities it is they who must take the leading role in LED, and it is therefore in their interest to forge partnerships with all stakeholders in their communities to drive the LED process. During the preparation and implementation of the integrated development plans, municipalities at all levels created structures to involve communities and other stakeholders in the planning process.

A concerted effort must now be made to build close partnerships with all existing structures and if necessary, newly formed structures so that all sectors of the community become involved, including organised labour, organised business (Chambers of Commerce and Industry) sporting and recreational associations etc. as they will all be able to make some input on LED initiatives.

## **2.9 *Ensure Sustainable Economic Outcomes***

Whatever development plans may have been prepared and put forward by the LED partners, the municipality must ensure that the development initiatives are sustainable. In its simplest form it would be foolish to invest in infrastructure and establish a mine if the ore to be mined is of such low quality or in such a limited supply that the reserves will be depleted after only a few months of mining.

If the business venture is to rely on local goods and services, which is in fact the backbone of LED, care must be taken to ensure that these goods and services are available or other suitable secondary LED initiatives are put in place to support the main LED initiative. If for example you are going to establish an orange juice producing plant, ensure that the farmers in the area produce sufficient oranges to sustain the operations at the plant.

If this cannot be done then the wisdom of establishing the plant must be questioned because LED initiatives must whenever possible utilise local resources.

### **2.10 Innovative and Creative Response**

Both in its marketing drive and in its response to business enquiries the municipality must be innovative and creative. Municipalities throughout the country are anxious to attract and retain investment and it will be those that are the most creative and responsive to the needs of investors that will gain the upper hand. The municipality's LED Team, consisting of high profile business and other community leaders as well as technical experts must become the LED think tank of the municipality and use innovative and creative ways of addressing any investment concerns or reservations.

### **2.11 Financial Position of the Municipality**

If the saying ***you have to have money to make money*** were strictly applicable to all municipalities it is doubted whether they would ever be able to get themselves out of the dire financial situation they find themselves in. The income from services and property rates must increase to enable municipalities to become financially viable, something they will only be able to do if the standard of living of the communities is improved so that they can in fact pay for the municipalities services, whether they be electricity, water or refuse collection.

The greater the number of persons dependent on the municipality's indigent policies, the longer it will take the municipality to become financially viable. The solution to the problem lies in Local Economic Development and in proper financial management and control. As indicated earlier the municipality will have to find innovative ways of attracting investors who will want to be assured that infrastructure such as roads, electricity, water and sanitation services are available or could be provided before they establish their business or expand existing businesses. Municipalities that are *bankrupt*, have a history of mismanagement, theft and corruption, are not likely to attract investors and it is important therefore that the finances of municipalities are in order.

### **2.12 Implementation of monitoring and evaluation systems**

We have already indicated that local economic development initiatives will flow from the integrated development plans of municipalities, which have to be monitored in terms of the Municipal Systems Act. All municipalities should by now, in terms of the Municipal Systems Act, have developed and implemented an organisational performance management system to monitor implementation of the IDP initiatives.

Integrated Development Plans of municipalities must also be reviewed on an annual basis and this also gives municipalities an opportunity to gauge the progress of the IDP and in turn the LED initiatives. It is important, however, that in the monitoring process municipalities take active steps to address problem areas that have been identified in terms of the organisational performance management system.

## **3. STRATEGIC CHALLENGES FACING LED INITIATIVES**

The goal of the LED strategy is to enable local communities through their municipalities and other role players active in economic development, to use the resources and abilities at their disposal to create employment opportunities, increase the levels of income and to establish an asset base from which further growth and development can be initiated.

Local communities need to be assisted by the implementation and co-ordination of national, provincial and local government programmes to maximise the competitiveness of the local economy and to achieve growth and development. The reduction and eventual eradication of poverty is an integral part of the local economic development efforts. Broad based support will be provided to the communities by the establishment of an integrated national, provincial and local institutional and financial network that is able to create an environment conducive to economic development; initiate business investment projects; create business development capacity with the people and their institutions; provide support services to enterprises and facilitate the creation of economic development strategies and cluster group formulation within the competitive economic sectors operating in the local area.

The goal is therefore the empowerment of communities throughout the country so that they are able to develop their local economies by innovative and creative application of the local resources to development opportunities. National, provincial and local government and non-government role players need to co-ordinate their activities and resources to provide effective support and services to local communities. There are, however, still major challenges facing the maximisation of local economic opportunities in a sustainable manner. A brief discussion of these challenges follows

### **3.1 *Lack of National Policy and Strategy Coherence***

Although local economic development has been on the agenda of municipalities for many years it has received far greater prominence after the enactment of the Municipal Systems Act, in 2000 with its developmental local government focus. During the preparation of the IDP's, LED initiatives were also raised and addressed but the main focus was to integrate the broader IDP with those of the district and other local municipalities in the area as well as with any provincial or national development plans.

Various structures and forums were established for the IDP's of municipalities, which were at times hosted and chaired by the provincial departments of local government. Unfortunately, however, very few or no policies or structures were established to address the nuts and bolts of LED resulting in LED still remaining largely uncoordinated at the national, provincial and local level. The national Department of Provincial and Local Government has identified this as one of the stumbling blocks and has now engaged in a process of consultation with the provinces and municipalities through SALGA and its provincial associations to identify the roles and responsibilities of the three spheres of government and other role players in the LED processes.

### **3.2 *Functional specialisation and uncoordinated actions***

One of the problems faced within the municipal environment is that of functional specialisation resulting in one department not keeping abreast of what is going on in the sister department within the same municipality. This practise of functional specialisation can impede the development and integration of LED initiatives as all departments should be focused at addressing local economic development within the municipality's area.

A proper reporting mechanism must therefore be introduced into the municipality so that all departments within the municipality are kept abreast of what projects or initiatives are being taken to promote LED. Unless special forums have been created to address this, the monthly management committee meetings could be used to disseminate and discuss projects that could assist in attracting or retaining investors to boost LED.

### **3.3    *Lack of Dedicated LED Institutions***

Local economic development as a discipline is still relevantly new to municipalities and to the national and provincial sphere of government. It is therefore understandable that very few specialised institutions have been established within the three spheres of government to address LED initiatives. However, with the Expanded Public Works Program to be embarked upon by national government, which is aimed at job creation, it is anticipated that institutions of this nature will be established within government and possibly also within research and tertiary institutions.

### **3.4    *Shortage of LED capacity and skills***

Successful implementation of LED initiatives requires a combination of specialised technical and other skills, including marketing and market analysis, statistics entrepreneurship, innovative thinking, negotiation and dispute resolution, project administration and contract management etc which are not always readily available. It must be mentioned however that the LGSETA together with SALGA and the Department of Provincial and Local Government are in the process of rolling out an LED learnership program at NQF levels 4, 5 and 6 and this should go a long way in addressing the present shortage of skills in this area. Councillors are therefore urged to encourage their municipalities to enrol some of their officials on these learnerships. It would also be advisable to extend these learnerships to unemployed matriculants and graduates within the municipality's area of jurisdiction.

### **3.5    *Lack of clear roles and responsibilities***

Generally very few municipalities have established dedicated components to drive LED, and fewer still have prepared job descriptions relating to LED so that the persons responsible for LED know exactly what is required of them.

Policy issues must therefore urgently address the role and responsibility of the three spheres of government in LED as well as the roles and responsibilities of the persons attached to such posts. Municipalities must, however, be proactive in the process and not wait for the national or provincial government to prepare comprehensive policies around these issues. They are in fact urged to immediately develop detailed job descriptions and specifications in regard to LED whether the responsibility is to be conferred upon the municipal manager, the IDP manager or someone else within the municipality.

### **3.6 *Competitiveness of local areas and IDP's***

It is generally the bigger and better resourced municipalities that will attract and retain investors. This is in many instances so because of the reasonable service charges and property rates in relation to the services that can be offered by these municipalities. Infrastructure in the form of excellent road networks, rail electricity, water and sanitation is not up to standard in many of the smaller municipalities and until such infrastructure is provided these under resourced municipalities will continue to experience difficulty in attracting suitable investors.

The better-resourced municipalities have a clear advantage over the under resourced municipalities and provide stiff competition in that they can lure investors away from the under resourced municipalities with the promise of excellent infrastructure, good markets and a constant supply of goods and services to maintain the investment.

### **3.7 *Poor financial position of municipalities***

The weaker the financial position of the municipality the greater is its difficulty in attracting suitable investors basically because as indicated above, without adequate financial resources it is extremely difficult to provide suitable infrastructure to secure investors.

### **3.8 *Poor access to accurate information***

As indicated previously LED is still a relatively new initiative and accurate information on industry and investor patterns is not readily available for all centres throughout South Africa. In addition many municipalities may also not be aware of research into LED issues that may have been undertaken by tertiary or other research institutions.

Information gathered by researchers within the municipality must also be verified for correctness as projects based on incorrect information could spell disaster for municipalities.

### **3.8 *Ineffective Monitoring and Evaluation***

Although the Municipal Systems Act requires that all municipalities develop and implement an organisational performance management system, to monitor and evaluate the IDP initiatives, some municipalities have not yet completed this exercise. In addition whilst the performance management system may monitor and evaluate the progress with the IDP, very few municipalities have developed suitable key performance indicators for LED initiatives within these plans, making it extremely difficult to monitor, evaluate and review the LED initiatives. Councillors should therefore ensure that any LED initiatives are tied to suitable KPI's so that these can be monitored and reviewed on an ongoing basis.

### **3.9 *Project Based Initiatives***

Small LED initiatives will invariably be project based as one tries to encourage SMME's to establish themselves through various projects like brick or block making, poultry farming etc., which in itself is acceptable. However, when all the LED initiatives become project based then one loses sight of the bigger picture. It is extremely important therefore that all the municipal departments become LED focused, as this will give a much wider perspective on what needs to be done in respect of LED.

### **3.10 *Poor LED integration with municipal priorities***

If proper research was undertaken into the various activities and projects being implemented within a municipality one would soon establish that there is in fact poor LED integration within municipal priorities. If we are serious about LED then councillors must ensure that the LED initiatives become part and parcel of the municipality's priorities. Whatever projects are undertaken within the municipality must also take cognisance of the pressing need to incorporate elements of LED into such projects.

#### **4. BUSINESS RETENTION, EXPANSION AND ATTRACTION**

During 1998 the International Republican Institute in conjunction with the National Business Initiative for Growth, Development and Democracy conducted research into and published a handbook on the Local Authority's Role in Economic Development for councillors and officials. Some of the information in the following paragraphs has been extracted from the handbook.

"The retention, expansion and attraction of business and industries is one of the most productive ways of creating employment and stimulating the economy. Local authorities, however, should ensure that these three components to business development are addressed in an integrated approach. Local authorities play a key role in enabling a regulatory environment to promote healthy business development.

For most companies, the major motivations in any decision to expand local operations or to relocate to another area include proximity to product markets, the quality and cost of the labour supply, the quality of local transportation and other infrastructure, the availability of natural resources, the community's regulatory environment and the general quality of life of the area. Local authorities interested in supporting business development should seek to promote and maximise their communities' competitiveness advantages in these arrears.

##### **Business retention and expansion**

Probably the single most productive approach for a community to increase its economic base is to expand and retain the businesses it has already. Some experts argue that as much as 70 to 80% of the community's business development activities should focus on existing businesses and helping to create an environment where they can grow. These efforts tend to be much less costly than efforts to attract new businesses and often prove to be much more successful. The goal of these efforts is to lower business costs, expand markets, develop the labour force, improve infrastructure and provide local amenities, which will enable local businesses to operate successfully and hire more local citizens.

Key Councillors and officials should make an effort to meet with all the firms and businesses in the area to find out their special needs and concerns. Do they need worker training programs, better road and transportation services, more efficient regulation or other issues that the local authority can better address?

Then action has to be taken to address these concerns. The database of all operating business in the municipality should be kept to provide quick contact details.

It is essential that the municipality treats local businesses just as well as it treats potential outside investors. Communities often make the unfortunate mistake of giving an investor from another province or country special attention denied to investors in their own back yard. Creative ideas can be used to encourage business expansion, such as congratulating companies in the local newspaper when they hire more people or holding contests to award company's who experience the greatest growth.

### **Business Attraction**

By helping to attract new businesses local authorities help to create jobs and increase the rates base. However, it is important that local authorities assess the risks involved in this process before embarking on expensive marketing programs or other business attraction efforts. Competition amongst South African cities for investment opportunities is already fierce. While every community can benefit from creative approaches to attracting investment, these efforts should not be pursued to the exclusion of other important economic initiatives.

Some of the most important techniques that local authorities can pursue to support business attraction include servicing and taking inventory of potential sites for development, providing personal attention to potential investors and working with the Chamber of Commerce and other organisations to promote the community. In addition local authorities also may want to work directly with potential investors to expedite approval, provide land, develop infrastructure in selected areas and provide other types of incentives.

One of the most common mechanisms used by cities in the United States to attract investment or encourage business expansion is to give concessions, including substantial tax incentives to potential investors. Well thought out incentive packages can be an effective tool for South African local authorities to expand local businesses and or to attract investment. Currently South African local authorities are allowed to give incentives but must first receive approval from the provincial premier.

Local incentive packages can be particularly effective when they are utilised in conjunction with national and provincial programs, such as spatial development initiatives (SDI).” (IRI 1998 - p 24-25)

The following are some of the incentives that could be provided by local authorities:

- The provision of serviced sites that lend themselves to the type of industry to be established.
- The sale of commercial/industrial land owned by the municipality on concessionary terms. Care must, however, be taken to comply with the relevant legislation covering the sale of municipal land.
- Removing zoning and other restrictions prohibiting the establishment of the industry/factory.
- Immediate processing of building plans or rezoning of property. Investors are easily frightened off if their applications take too long to process. One stop centres must be introduced by municipality's where all information can readily be made available to prospective investors.

Investment will generally not flow in on its own and local authorities will have to embark on some form of marketing campaign to attract investments. This can be done through newspaper advertisements, trade shows and participating in provincial marketing initiatives.

In addition to providing incentives local authorities must also ensure that all departments and staff are investor friendly. They need to establish the needs and priorities of the prospective investors and ensure that they meet those needs through excellent customer service during and after the establishment of such businesses. Post investment service is as important as pre investment service.

#### **4. PROMOTION AND MARKETING**

Many local authorities may not have the capacity to undertake their own marketing and consequently appoint outside consultants to promote their municipality as a great place to invest.

Such promotion can be either on a local, provincial, national or international level.

However, whether such promotion is to be undertaken by the municipality's staff or outside agencies, it is important that a local marketing strategy be developed.

Such strategy could involve:

- The establishment of a Representation Team, which should be constituted by every municipality and consist of key councillors, officials, community and business leaders to represent the municipality at investor meetings. The team should be composed of high profile local leaders and technical experts that can answer any questions the investors may have.
- As indicated in Study Unit 1, investors will wish to be assured that the surrounding area is also investor friendly and it is important that members serving on the Representation Team are also familiar with what is going on in surrounding municipalities or districts. They therefore need to keep in contact with regional or provincial marketing groups and continuously update their information. Municipalities must avoid making investors go from "pillar to post" in order to obtain the information they require.
- Whilst advertisements in the media may reach a certain percentage of the investors the municipality may have to embark on marketing campaigns that could include hosting trade or tourism exhibitions. Again it is important to involve all role players in the process including existing local business but especially the hotel industry, which may have to provide accommodation for visiting guests and investors. You must ensure that everyone involved provides excellent customer service.
- Developing twinning relationships with cities in other countries. It is agreed that this strategy is of greater use to the larger cities like Johannesburg, Pretoria, Cape Town and Durban but it does not prevent smaller municipalities from building up close relationships with other municipalities in the area.

## 5. LEGAL CONSIDERATIONS

The following are some of the legal considerations councillors should be aware of when deliberating on local economic development programs.

**“Land** - In terms of current legislation municipal land cannot be sold below its market value. However a local authority may apply to the premier for special permission to reduce the costs of its land in a specific development. Local authorities may also donate land to certain non-profit organisations. It can also lease its property at a nominal rate for certain types of organisations.

**Planning legislation** – Currently most local authorities are working within the Town Planning and Township Ordinances. It is important to note that the former black townships were governed by different regulations that were based on the Black Local Authorities Act. The combining of these areas offers major challenges in relation to uniformity and an equitable approach.

**Zoning** - The zoning of an area is undertaken in terms of the Town Planning Scheme. Any amendments or applications for rezoning have to follow lengthy and time-consuming procedures (often as long as two years). Historically zoning has been characterised by single usage – areas for residential or commercial purposes. In their efforts to amend their Town Planning Schemes, local authorities may want to explore more flexible and economically efficient mixed use zoning schemes.

**Investments** - A local authority can invest or take equity in a company provided that one of the objects of that company is related to the functions or services provided by the municipality. However, local authorities are not allowed to take equity in businesses that fall outside of their functions.

**Loans / Start Up / Venture Capital** – under existing legislation local authorities are not permitted to grant loans, start up or venture capital. Section 218 (1) of the Constitution provides for the different spheres of government, including local authorities, to guarantee loans, only if the guarantee complies with any conditions set out in the legislation.

**Health and Safety Bylaws** - Local authorities have bylaws on health and safety. In relation to the emerging and new forms of economic activities some of these bylaws are considered to be inappropriate. For example, food handling bylaws, set strict requirements and standards in relation to restaurants, yet have a different set or standards for food vendors.

Local authorities should review these bylaws to ensure a proper balance between development needs and general public interest.” (IRI 1998 p 55-56)

## **6. FUNDING OF DEVELOPMENT INITIATIVES.**

Funding for development programs initiated by the municipality can be obtained from public and private sources. Whether the municipality or private entrepreneurs seek such funding, certain fundamental issues must be addressed in the funding applications. Development projects initiated by municipalities may in many instances revolve around providing the necessary infrastructure to attract investors, such as the provision of suitable access roads, water and sanitation services etc. “Funding proposal should be able to answer the following questions.

1. Is the project clearly defined?
2. Will the project be visible to citizens in the community?
3. Do the benefits of the project clearly outweigh the costs?
4. Are the people directly affected by the project likely to support it?
5. Will the staff who need to implement the project be available?
6. Are the expected results of the project measurable?
7. Is the project likely to produce visible and measurable results soon?
8. Are people concerned about the issue the project is designed to address?
9. Does the project clearly address the goal to be achieved?
10. Does the staff have the expertise and knowledge required to implement the project.”

(IRI 1998 p 63)

## **7. LOCAL ECONOMIC DEVELOPMENT PLANNING**

Once the municipality has appointed its Representation Team and established a structure within the municipality to promote LED, the process of LED planning can commence in earnest.

The following are some of the issues the municipality needs to consider as it proceeds with its planning process.

- **Political leaderships** i.e. the councillors are critical in unifying and mobilising community resources. Care must, however, be taken that differences between political parties do not shipwreck the process.

In addition to the political leadership the municipality must also ensure that it has on board a core of respected business and other community leaders who are prepared to commit their time and expertise to the promotion of LED.

- **Involvement of stakeholders.** The municipality must make every effort to consult as widely as possible on its LED initiatives. In most municipalities you will find interest groups that are either for or against development. Opposition to development could be because of anticipated greater competition to local business people or because of environmental factors etc. It is extremely important that opposing interest groups are consulted from the outset so that the municipality can explore their objections and where possible, allay their fears.
- **Over dependence or reliance on government programs.** National or provincial spatial development initiatives, decentralisation strategies, local business service centres and incentives are helpful but the municipality must satisfy itself that these are applicable to its area.
- **Ensure that you have the human resources and expertise to support the investors wishing to establish in your area.** One of the key components in LED is job creation, often for the under qualified or unskilled. It is important that provision is made in any human resource plan to upgrade the skills of these people either before or upon assumption of duty.
- **Be careful in the selection of your economic activity.** Convention centres, tourism, casinos and curio outlets for the smaller entrepreneurs often dominate local economic development plans of municipalities. Choose wisely so that the investors can sustain their businesses in the municipality.
- **Do not underestimate the potential of women and the youth in LED initiatives.**
- **Do not confuse local economic development with community development,** black economic empowerment, promotion of SMMEs and poverty alleviation programs although all of these may be addressed through local economic development.

- **Be aware that the concept of local economic development is relatively new** and that many role players within the community at large, the municipality as well as the other spheres of government may not be fully familiar with what LED embraces. You will therefore have to explain to all role players what is meant by LED, so that all parties involved in the LED program in your municipality remain fully focused.
- **Do not embark on costly surveys to establish market needs or local business frustrations** if these have already been captured in socio economic surveys undertaken as part of the IDP process or the implementation of organisational performance management systems as required by the Municipal Systems Act.
- **Where possible use existing structures to consult around LED issues.** The municipalities will in most instances have established Representative Forums or Focus Groups as part of the development of the their integrated development plans. These structures together with ward committees, where these have been established, can all be successfully used in regard to LED consultations and surveys.

A basic planning approach is set out hereunder and can be adjusted to the particular circumstances of every municipality.

| Phase One   | Deliverable  |
|---|--|
| <p><b>Activity</b></p> <ul style="list-style-type: none"> <li>• Collate and analyse the information obtained during the IDP and Organisational Performance Management surveys to establish:             <ul style="list-style-type: none"> <li>○ Demographic trends</li> <li>○ Physical and Infrastructure Characteristics</li> <li>○ Economic Data</li> <li>○ Employment trends</li> </ul> </li> <li>• Consult with relevant stakeholder around possible expansion to existing businesses or new developments</li> </ul> | <ul style="list-style-type: none"> <li>• A data bank of information especially that can impact on the retention and expansion of existing business or that can have an impact on securing new investments.</li> <li>• A framework for local economic growth and development that needs to be pursued in each municipal department</li> </ul> |

| Phase Two  | Deliverable  |
|--|--|
| <b>Activity</b> <ul style="list-style-type: none"> <li>• Identification and mobilisation of leadership. <ul style="list-style-type: none"> <li>○ Key councillors</li> <li>○ Key officials including technical experts</li> <li>○ Community leaders – from the business, sporting and other fraternities</li> <li>○ Stakeholders</li> </ul> </li> <li>• Appointment of LED champion within the municipality</li> <li>• Establishment of an appropriate LED structure if none exists.</li> </ul> | <ul style="list-style-type: none"> <li>• Established Task Teams each with identified roles, responsibilities, budgets and time frames</li> <li>• Appointed LED champion and established structure.</li> </ul>  |
| Phase Three  | Deliverable  |
| <b>Activity</b> <ul style="list-style-type: none"> <li>• In depth consultation with all stakeholders to establish the type of investors required</li> </ul>  | <ul style="list-style-type: none"> <li>• A schedule reflecting the investors to be targeted.</li> <li>• A schedule reflecting the existing businesses that require assistance in regard to expansion.</li> </ul>   |
| Phase Four   | Deliverable  |
| <b>Activity</b> <ul style="list-style-type: none"> <li>• Preparation of strategies and a business plans outlining the initiatives to be taken to secure new investors and/or expand the businesses of local entrepreneurs.</li> </ul>  | <ul style="list-style-type: none"> <li>• Implementation of the business plan according to a project management plan which has clearly defined <ul style="list-style-type: none"> <li>○ Project Outcomes</li> <li>○ Deliverables</li> <li>○ Responsibilities</li> <li>○ Time frames</li> <li>○ Budgets</li> </ul> </li> </ul> |

| Phase Five   | Deliverable  |
|--|--|
| <b>Activity</b> <ul style="list-style-type: none"> <li>Monitoring the project according to the project management plan.</li> </ul> | <ul style="list-style-type: none"> <li>Periodic reports to council on progress and steps required to be taken to remedy any deviations</li> <li>Implementation of actions to remedy deviations.</li> </ul> |

## STUDY UNIT 3: SUCCESSFUL IMPLEMENTATION OF LED IN SMALL TOWNS

### 1. INTRODUCTION

Across the world, it could generally be said that especially small towns face mounting economic and social pressures because of some or all of the following issues:

- Unemployment and under-employment rates are generally higher than large urban cities.
- Job growth rates remain lower.
- There is the continuous outflow of people (especially youth) in search of improved education and employment options.
- The smaller towns are generally surrounded by large rural areas that provide little income and yet are demanding of services.

International experience clearly demonstrates that small town development, and its long-term viability is essentially about two key issues.

**Firstly, it is an economic issue.** Only a fully diversified local economy supporting a multitude and range of employment opportunities creates the necessary economic and social fabric to promote economic development.

**Secondly, it is about process** -- the process of identifying and harnessing local community resources and options to stimulate economic and employment activity.

It is therefore extremely important that councillors as the chosen leaders in their communities involve communities in such issues as:

- Identifying the community's competitive advantage. Determining the community's aspirations.
- Bringing more money into the community.
- Keeping money circulating in the community.
- Exploring and identifying new market possibilities.
- Understanding the complexities of existing markets better.
- Finding new resources.

- Using resources more effectively.
- Creating strategic alliances between key groups.
- Increasing the net number, quality and variety of local jobs.

If the councillors in conjunction with the community and other stakeholders including national and provincial government achieve the above, the chances of successful local economic development is substantially increased

These following paragraphs seek to provide a brief overview of international experience related to small town development by focusing on positive policy and strategy initiatives that provide valuable lessons for small towns in South Africa and that councillors could promote within their municipalities.

## 2. PROMOTION OF LED THROUGH LOCAL LEADERSHIP

Professor Glen Pulver, small town development specialist at the University of Wisconsin, Madison, summarised this characteristic well when he stated,

“The most critical factor in determining the growth or decline of rural communities is **leadership**, the most critical investment to ensure the future of rural America is **leadership education** ... quality leadership is the single most important variable of community development ... without quality leadership, communities which have a difficult task determining which strategy will be the most effective for their situation”.

The recent Australian Report, *Business Investment and Regional Prosperity -- The Challenge of Rejuvenation* which studied both the experience of regional economic development in Australia and a variety of international communities, highlighted the pivotal role of local leadership and shared vision in building regional investment:

Raising the profile of regional leaders and helping them learn about best practice from "pockets of excellence" throughout Australia and the world will play an "important part in the rejuvenation of regional Australia"

Training programmes that have been identified as critical to see to the development and encouragement of leadership, in small towns, have been identified as follows:

- Leadership and communication
- Economic development options
- Issue analysis and resolution
- Community affairs and public policy
- Working with groups
- Funding
- Lobbying
- Use of the media
- Teaching methods
- Cross cultural training
- Volunteerism etc.

So often, economic development initiatives are due to the energy and vision of local "**movers and shakers**", from local government and/or business community concerned citizens with energy and vision for their community.

### **2.1     *A Positive Attitude towards Change and Experimentation***

A level of dissatisfaction indicates a willingness by a community to not accept the current economic state of their own town as immutable and such a factor invariably leads to a positive attitude towards change and experimentation. Such a factor takes several forms.

**Firstly**, it implies that the community wishes to control their own destiny by understanding and managing change.

**Secondly**, it indicates a willingness to study, learn and benefit from other communities and their actions.

**Thirdly**, it implies a willingness to experiment with solutions to existing or emerging issues and not just limit its response to actions developed in the past.

## **2.2 A Commitment to the Mobilisation and Involvement of Local People**

In the words of Schaffer,

“While economic development often depends on one or two individuals for its spirit, careful examination demonstrates that they were able to involve others. Success with local economic development is clearly related to the ability to mobilise and maintain the involvement of local citizens.”

Traditionally, such programs and policies have operated purely within a context of **"Top down"** and **"one size fits all!"** Now effective action requires governments to act in partnership with local communities. Internationally, there is certainly more enthusiasm within government centres for **"bottom up"** actions, which engages the affected small town and its business and civic leaders from the beginning.

Achieving community involvement and maintaining support and involvement are not easy tasks.

## **2.3 A Commitment to Process**

Meaningful small town economic development is **not** just like **"turning on a light"**. Economically vibrant communities have demonstrated a commitment to the fundamental planning and implementing processes.

The essential processes include:

- Gaining and maintaining broad community involvement and support, and achieving a shared vision.
- Exploring short and long-term development strategies.
- Building on existing resources, including the community's competitive advantages, infrastructure, capital assets and, most important, the human resources available within the community.
- Analysing strengths and weaknesses and choosing the most appropriate development opportunities.

- Implementing an action plan (IDP).
- Evaluating and adjusting the IDP

## **2.4 *Generating new ideas, possibility thinking and Community Involvement***

These initiatives highlight local economic development processes and seek to motivate the wider community and other stakeholders to become involved. However firstly we will have to establish who these stakeholders are:

“Stakeholders are individuals, firms and/or organizations in the public, private and not-for-profit sectors that could be useful in strategizing and carrying out LED. The stakeholder management process recognizes that all stakeholders are important and that some will require more attention than others.

It must be determined:

- Who the key stakeholders are.
- What their interests are likely to be.
- The best way to involve them in the LED activities.

The benefits of involving stakeholders include:

- Stakeholders bring specialist knowledge and different perspectives making the planning process more robust.
- They bring professional, financial and physical resources to the table.
- They legitimise the process by being involved.
- They forestall problems by being engaged in the process.
- Business partners are likely to know much more than local government representatives about the true state of the competitive position of the community.
- By involving higher tiers of government, strategies are likely to benefit from their support (including financial).

- Local community representatives are likely to be well informed about local problems and opportunities that could be addressed by the LED strategy.
- By involving communities, it is likely that a volunteer effort could be established to support LED implementation programs.
- Jobs and economic growth are created in the private sector. Government is usually merely a facilitator in this process “Local Economic Development. World Bank Group –p10

Once these stakeholders are identified and it is established what their interests etc are, there are a number of actions possible: These include

- Organisation of *community planning events* to develop a shared vision. Compilation of *local community profiles*.
- Compilation of a *local skills register*.
- Creation of an *Economic Development Ideas Bank*, with regular publication of ideas in the Local newspaper -- aims to stimulate community reactions.
- Organisation of *local competitions* on themes like "best ideas for creating local jobs" etc.
- Organisation of *study tours* to other communities.
- Organisation of *new business idea generation workshops* for local residents interested in exploring alternative employment/new business options.
- Understanding of *local business and owners surveys* to identify market gaps.
- *Regular monitoring of job creation and business ideas* from overseas e.g. monitoring of new franchise business arrangements, emanating from U.S.A., Europe etc.
- Appointment of a *Local Economic Development Officer and/or Local Enterprise Facilitator*.
- Formation of an *appropriate vehicle* for local economic development e.g. Taskforce, Portfolio Committee, Board.

- Initiation of a *radio call-in/ talkback Program and/or newspaper column* to solicit new ideas for economic and employment development.
- *Enhancing the Job Linking Capacity of a Community and thus the Flow of Local People in Jobs*

### 3. STRENGTHENING THE EXISTING BUSINESS BASE

These initiatives focus on the retention and expansion of local businesses, by engaging in actions that assist local businesses improve their productivity, and market share. Such initiatives include:

- Organisation of "Build your business" type training programs aimed at strengthening the management and marketing capacities of local businesses.
- Initiation of a regular business and industry visitation program in which all local businesses are regularly visited to identify limitations to growth or problem areas.
- Introduction of regular customer service training and acknowledgment schemes. Creation or strengthening of *local business support networks*.
- Enhancement of the sensitivity of local government officials to business needs and issues
- Promotion of and support for export culture *practices*.
- Organisation of productivity enhancement program for specific industry services like tourism, handicraft, and value added products etc.
- Co-ordination of *group marketing initiatives* for local producers.
- Organisation of mechanisms to enhance big firm -- small firm *relationships*.
- Creation of local products and service database to identify new market opportunities.
- Establishment of international business links.
- Use of local retired business people as mentors to assist new businesses or businesses experiencing difficulties.
- Maximisation of media coverage for local businesses
- *Creation of a local marketing fund*.
- Provision of assistance to local businesses to stay local.

#### **4. PLUGGING THE LEAKS IN THE LOCAL ECONOMY**

Every Rand spent in the community, whether for retail and wholesale goods and services, or for other industrial inputs, adds to the community's employment and income. Whenever a local resident or business shops or trades outside the community, Rands flow out. Communities are taking a variety of steps to limit such leakage through such initiatives as:

- Co-ordination of buy local campaigns and promotions.
- Co-ordination of Matchmaker Initiatives to identify and link the input needs and production capabilities among local businesses.
- Regular identification and publication of local consumer needs, opinions and buying habits.
- Systematic promotion of local businesses and their range of goods and services.
- Organisation of local tendering concession for local businesses by local government and major companies in the community.
- Formation or strengthening of business networks -- Chambers of Commerce.

#### **5. FOSTERING LOCAL ENTREPRENEURS AND NEW BUSINESS FORMATION**

There is a constant need for small towns to be encouraging the creation of new business to meet changing demands or to capture sales, which might otherwise go to other communities. Support and encouragement of small business may take the form of:

- Organisation of local education for enterprise initiatives through local education institutions.
- Establishment of a "one stop shop" *service* where local potential or existing entrepreneurs can access a comprehensive range of counselling, training and brokerage services to help with business planning and establishment.
- Provision of shared work space/hive/incubation *units* for new business start-ups
- Creation of alternative finance schemes e.g. local investment fund, informal group guarantee arrangements, and local equity sources.
- Research into, and promotion of, interesting business ideas from other communities.

## **6. ENHANCING THE ATTRACTIVENESS OF THE COMMUNITY TO VISITORS**

Any visitor tourism strategy needs so be based on four priorities:

- 1) How to increase the number of visitors.
- 2) How to increase the length of their stay.
- 3) The amount each spends.
- 4) The amount each spends on local products and services.

While it is true that one wishes to attract tourists so that they can increase the revenue of local businesses and assist in job creation through the tourist industry, real and lasting benefits are created when they consider the area suitable for investment and develop industries in the area. It is important therefore that every effort be made top attract tourists.

Examples of what can be done are set out hereunder

- Co-ordination of town beautification schemes.
- Development of heritage/tourism trails.
- Preparation of a comprehensive tourism strategy.
- Provision of support for continuous new tourism product development.
- Development of a calendar of special events.
- Promotion of special features e.g. unique meals/dishes/drinks, famous sons and daughters, legends, significant events etc.
- Preparation of a town strategy-to get passing motorists to stop -- needs to focus on a range of issues including signage, town entrance statements, headhunting certain businesses, upgrading of toilets and playground facilities, parking, general appearance etc.

## **7. BUSINESS COMMUNITY INVOLVEMENT**

It is essential that the business community becomes actively involved in the promoting local economic development in a structured manner. Within the South African context the business community through organisations like NAFCOC and National Economic Initiative have instigated significant initiatives to tackle employment and economic issues.

In addition, many small towns are discovering the immense value of business club networks like Rotary, Professional and Business Women's Association and Chambers of Commerce to undertake vocational service projects within the context of community economic development. The "Creating a Participative Economic Culture" initiative through regional Chambers of the Namibia National Chamber of Commerce and Industry (NNCCI), is based upon NNCCI's Affirmative Action Policy that includes the recognition of:

"The need to engage local people, individuals, businesses and the community in processes which establish plans and decisions regarding the development of communities and regions throughout Namibia".

In addition to the local business community involvement in LED there is a growing trend for Non Governmental Organisations and Community Based Organisations to increasingly become involved in economic development projects.

## **8. STRATEGIES /INVESTMENT TOOLS**

Investment tools in LED are instruments used by municipalities to influence the local economy, and to enhance the development potential of the area. These investment tools can be divided into:

- Cost Reduction Tools
- Capacity Improvement Tools; and
- Market Expansion Tools

Councillors need to make an inventory of how many of these strategies/investment tools are being used in their municipality and if need be, lobby for the introduction of those they consider appropriate to the prevailing circumstances in their respective municipalities. Details in regard to each of these tools is reflected in the table hereunder

| <b>Cost Reduction Tools</b>   |
|---|
| <ul style="list-style-type: none"> <li>• Deferred Tax Payments</li> <li>• Direct Cash Contributions to a Project</li> <li>• Direct Loans to Private Business</li> <li>• Donation of land to Developers</li> <li>• Donation of Unused Property to Developers</li> <li>• Foreign Trade Zones</li> <li>• Historic Preservation Designation</li> <li>• In-Kind Payment</li> <li>• Various Forms of Tax Exemption</li> <li>• Loan Guarantees</li> <li>• Loan Subsidies (subsidising capital or interest redemption, or both)</li> <li>• Revolving Loan Funds</li> <li>• Sale-Lease Back of Land and Buildings</li> <li>• Syndication</li> <li>• Venture Capital</li> </ul> |
| <b>Capacity Improvement Tools</b>   |
| <ul style="list-style-type: none"> <li>• Building Construction/ Renovation for Sale or Lease to Developers afterwards</li> <li>• Day care Assistance</li> <li>• Development Fees/Levies</li> <li>• Employee Training/Re-Training</li> <li>• Entrepreneurial Assistance</li> <li>• Infrastructure Improvements</li> <li>• Land Acquisition</li> <li>• Land Clearance</li> <li>• Land Condemnation (e.g. combating land invasion and other forms of land misuse)</li> <li>• Leasing of Land to Developers</li> <li>• Gathering market Intelligence to Establish Local Business Needs</li> </ul>   |

|  |
|--|
| <ul style="list-style-type: none"> <li>• Land Consolidation</li> <li>• One-Stop Business Centre (zoning and building plan approval so that entrepreneurs are not sent from pillar to post in getting approval for their development projects)</li> <li>• Procurement Assistance</li> <li>• Relaxation of Building, Zoning or Environmental Regulations</li> <li>• Relocation of Residents and Business from Redeveloped Areas</li> <li>• Assistance to New Families in the case of Recruitment of Foreign Firms</li> <li>• Sale of land to Developers</li> <li>• Special Purpose Zoning</li> <li>• Strategic Planning</li> </ul> |
| <b>Market Expansion Tools</b>  |
| <ul style="list-style-type: none"> <li>• Advertising</li> <li>• Export Assistance</li> <li>• Marketing Strategy</li> <li>• Promotional missions (domestic)</li> <li>• Trade missions (abroad)</li> <li>• Sister City Arrangements and Technical/Cultural Exchanges</li> </ul>  |

## 9. IMPROVING INFRASTRUCTURE

Investment in hard infrastructure involves investing in improving the *built environment* for businesses thereby making it more attractive for business retention, expansion and recruitment. Programs and projects include:

- Building or improving key access roads.
- Improving the railway for passenger and goods services.
- Developing, improving and/or expanding the local airport.
- Developing, improving and/or expanding the local port.
- Developing, improving and/or expanding industrial sites and buildings; this could include anything from planting a few trees to comprehensive landscaping or building entire new science parks.
- Developing, improving and/or expanding commercial sites and buildings (for shops and offices).
- Increasing the availability of industrial and potable water.
- Improving and/or expanding the sewerage disposal system.
- Improving and expanding the telecommunications systems.
- Improving and expanding the energy systems.
- Environmental enhancements Crime prevention equipment installation

Local Economic Development .The World Bank Group – p 23

## **STUDY UNIT 4: LOCAL ECONOMIC DEVELOPMENT AND POVERTY ALLEVIATION**

### **1. INTRODUCTION TO POVERTY ALLEVIATION**

Although local economic development will assist in poverty alleviation its primary function or point of departure is not merely poverty alleviation as both poor and well off areas would be better served through local economic development.

The guiding principles of LED revolve around:

- Creating favourable locational factors. In other words you need to ensure that your town or city has qualities that are competitive with those of other locations and that entrepreneurs would rather choose your town than going somewhere else.
- Promoting businesses
- Making markets work better
- Making better use of locally available resources

Municipalities therefore have the responsibility of ensuring that they create the right environment to promote local economic development and through this process promote poverty alleviation in their communities. The powers and functions of local government should be exercised in a way that has maximum impact on the social development of communities, in particular meeting the basic needs of the poor and on the growth of the local economy. The White Paper makes it clear that although local government in South Africa is not directly responsible for job creation, it can still play an important role in promoting job creation, boosting the local economy and alleviating poverty.

Poverty is characterised by not only a lack of assets and the poor's inability to accumulate an asset portfolio, but also by an inability to devise an appropriate coping or management strategy. All three spheres of government therefore have an important role to play in poverty alleviation.

Across the developing world, the key finding is that for the majority of the poor, legislation, rules and regulations is neither functional nor beneficial and, in many instances, becomes a framework for harassment of the poor. The international record points to the need for regulatory reform in virtually all areas of municipal responsibilities that impact upon the poor.

## **2. PRACTICES THAT CAN LEAD TO POVERTY ALLEVIATION**

A major step towards expanding the asset base of the urban poor is to enhance their limited access to the full range of municipal services, which would generally include:

- Water supply,
- Sanitation,
- Refuse removal,
- Drainage,
- Flood protection,
- Local roads,
- Public transport,

### **2.1 *Employment Creation***

For the poor, their greatest asset is their capacity for labour. The key area for policy consideration relates to the activities of the survivalist informal economy, including a range of home-based enterprises, and of micro-enterprise activities.

### **2.2 *Security and Protection from Crime and Natural Disasters***

The asset base of the poor may be eroded dramatically by the negative consequences of crime, violence or by the impact of disasters such as floods or environmental hazards.

### **2.3 *Co-ordination and Integration***

It is stressed that effective actions by municipalities to address urban poverty require not only a good knowledge of the state and incidence of poverty within their jurisdictions, but also a need to monitor and integrate the activities of both NGOs and private sector organisations.

## 2.4 *Intergovernmental Support*

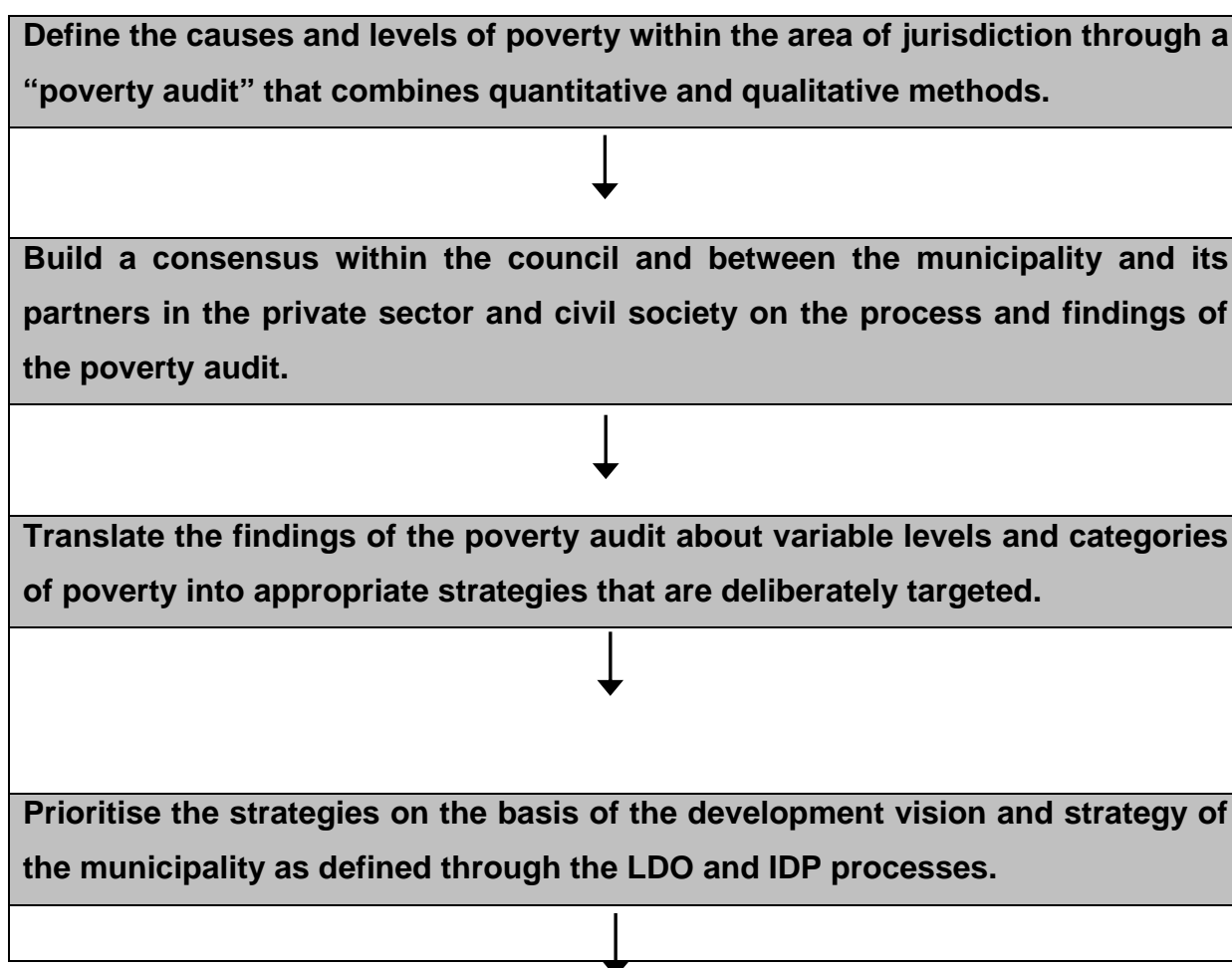
LED initiatives in many small towns and rural areas in South Africa will be dependent upon support mechanisms from national and provincial government.

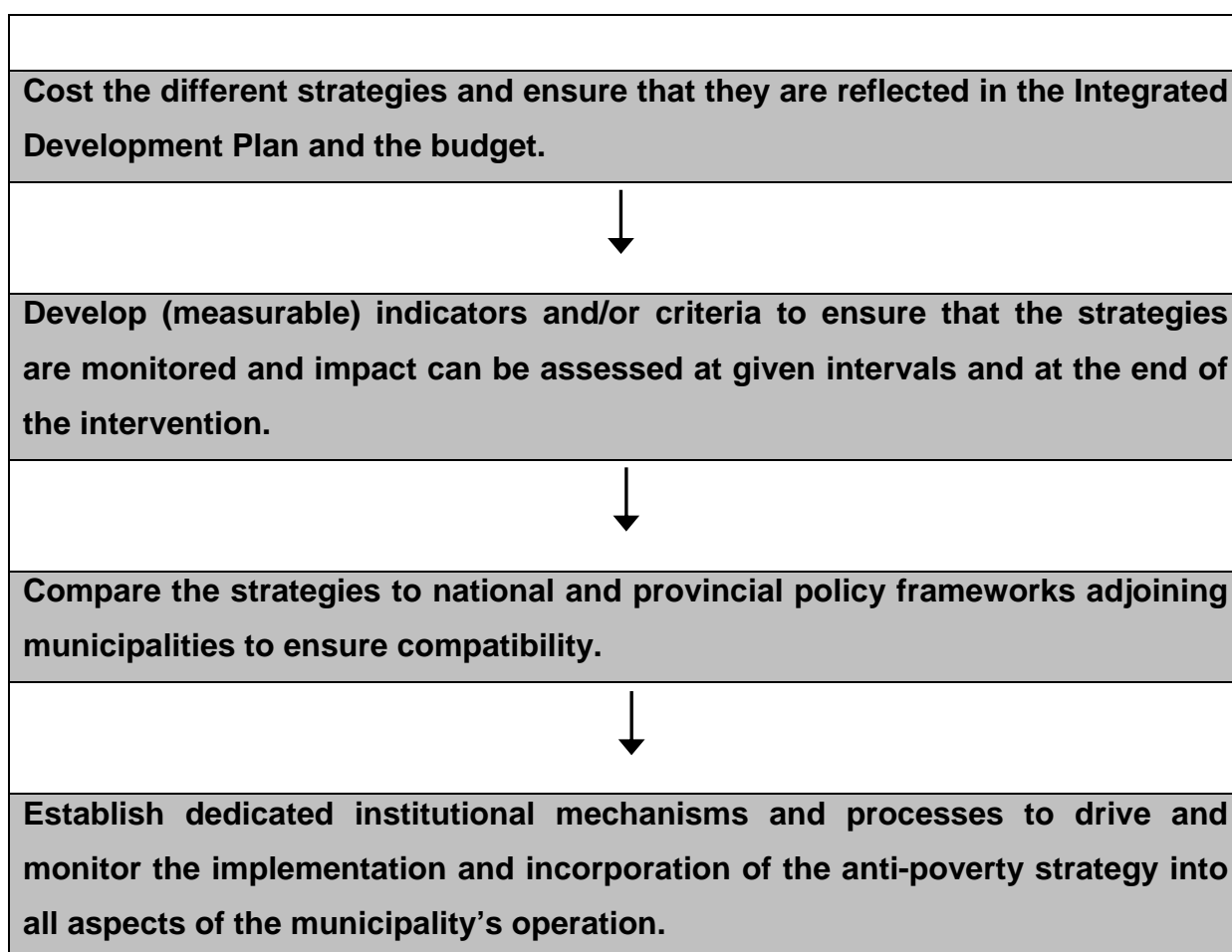
Suggested issues for support include, among others,

- Training of local government councillors and officials in LED and community participation,
- Funding for pilot projects and community participation, which would be linked to ongoing monitoring and evaluation.
- Facilitation of local processes to resolve conflicts and deadlocks.
- Programmes aimed directly at poverty alleviation.

## 3. STEPS IN DEVELOPING A MUNICIPAL ANTI-POVERTY PROGRAMME

It is recommended that the following steps be considered when developing an anti poverty program for your municipality.





## **STUDY UNIT 4: INSTITUTIONAL OPTIONS FOR LOCAL ECONOMIC DEVELOPMENT**

### **1. INTRODUCTION**

There are a number of institutional options which offer potential benefits for the management, implementation and monitoring of LED programmes and /or projects. These include:

- Municipal LED units;
- Community development trusts;
- Section 21 companies; and
- Partnerships with other stakeholders.

### **2. TYPES OF MUNICIPAL SERVICE PARTNERSHIPS (MSP)**

Partnerships can be structured in a number of ways. The most common types of contractual arrangements for project-level partnerships are set out hereunder.

#### **2.1 *Service contracts***

- Contracting a service provider (the "contractor") to carry out a specific aspect of a municipal service.
- Usually short-term contracts,
- Commonly used for services such as meter reading, catering, and building maintenance.
- Performance criteria should be set, which define expectations of how the contracted function should be performed.

#### **2.2 *Management contracts***

- The service provider is usually responsible for the overall management of all aspects of a municipal service. For example, a management contract could be used to contract a service provider to manage a water utility.
- The municipal council retains ownership of all assets associated with the contracted service, and is responsible for meeting capital funding requirements.
- The service provider is responsible for the management of the operation, in return for an agreed-on fee.

## **2.3 Leases**

- An agreement with an external service provider (the "lessee"), in terms of which the lessee operates and maintains a municipal enterprise.
- Different from a management contract, in that the lessee takes some financial risk. In a management contract, the contractor is paid a fixed amount. In a lease, the lessee has responsibility for financing the maintenance of assets, and is paid with income derived from tariffs.
- The exact financial obligations of the lessee must be spelled out in the lease agreement.

## **2.4 Concessions**

- A contract with an external service provider (the "concessionaire").
- The concessionaire is responsible for managing the service enterprise, and for operating and capital funding.
- Usually used when a municipality lacks the financial resources to upgrade or extend existing service infrastructure.
- Provides a way of leveraging investment from a private-sector company, who will invest in upgrading existing infrastructure, or building new infrastructure.
- Usually long-term contracts (20-30 years), to allow enough time for the concessionaire to recover the capital investment it has made from user-fees.

## **3. ADVANTAGES /DISADVANTAGES OF PROJECT LEVEL SERVICE PARTNERSHIPS**

Some of the key advantages and disadvantages of project-level service partnerships are outlined on the following table

| Advantages  | Disadvantages  |
|---|--|
| <ul style="list-style-type: none"> <li>• <b>Focus on core functions:</b> Partnerships can allow the municipality to concentrate on specific functions and responsibilities, and out source other functions.</li> <li>• <b>Access to management expertise:</b> <i>Contracts</i> are a way of accessing private-sector management expertise, which can result in efficiency gains.</li> <li>• <b>Financial gains: Contracts</b> such as concessions are a way of accessing capital funding. Savings may also be generated from increased efficiency.</li> </ul> | <ul style="list-style-type: none"> <li>• <b>Delegation of functions: Contracts</b> involve the delegation of certain responsibilities to external contractors. Municipalities should ensure that they retain control over the policy function, and that contracts do not compromise their ability to effectively serve the public interest.</li> <li>• <b>Job security:</b> Municipalities should ensure contracts are drafted in a way that minimises job loss, and protects the rights of workers.</li> <li>• <b>Avoid "Cherry-picking":</b> Contracts should be explicit enough to ensure that contractors are not able to exclude vulnerable communities from the specified service area.</li> </ul> |

#### 4. DIRECT & INDIRECT ROLES OF MUNICIPALITIES IN LED

| Direct roles of municipalities in LED   | Indirect roles of municipalities in LED   |
|---|---|
| <ul style="list-style-type: none"> <li>• <b>Policy formulation and leadership</b> in integrated development and spatial planning, including the formulation of IDPs and LDOs, procurement policy, etc.</li> <li>• <b>Collation and interpretation</b> of economic intelligence. For example, conducting research and maintaining databases and city indices.</li> <li>• <b>Co-ordination</b> of local initiatives and other government LED programmes</li> <li>• <b>Provision of business infrastructure</b>, particularly in previously disadvantaged areas.</li> </ul> <p><b>Support to SMMEs</b>, including the facilitation of funding and training.</p> <ul style="list-style-type: none"> <li>• <b>Development of incentives</b> for inward investment</li> </ul> | <ul style="list-style-type: none"> <li>• <b>Creation of an enabling environment</b>, including rendering better services.</li> <li>• <b>Improvement of operational efficiency</b>, for example, quicker processing of licensing applications.</li> <li>• <b>Facilitation</b> of sustainable community projects.</li> <li>• <b>Attraction of development</b> funding for the locality.</li> <li>• <b>Dissemination of information</b> on LED, in conjunction with DPLG, SALGA and other stakeholders.</li> </ul> |

## **5. PROMOTING ENTREPRENEURSHIPS AND SMME'S**

The tools and strategies set out hereunder are designed to provide councillors and officials with some useful background information and suggestions for action on a wide range of initiatives to support key sectors of the local economy and encourage job creation.

### **5.1 *Start-up and Venture Capital***

- SMMEs experience major problems in accessing finance.
- Financial institutions require collateral for loan applications.
- A number of NGOs – IBEC, Get Ahead and Stokvels – provide loans to entrepreneurs.
- Khula Finance Ltd offers a guarantee scheme to encourage major lending institutions to make loans to small businesses.
- Municipalities can assist entrepreneurs through heightening awareness of structures available through these organisations.
- Current legislation prohibits municipalities providing direct financial assistance, however they can assist organisations engaged in SMME funding support by providing access to public facilities and other in-kind support.

### **5.2 *One-Stop Centres***

- Local businesses need information and action from municipalities on issues such as licensing, tendering, rates, permits, zoning and building approvals.
- Long delays and confusing procedures can cause difficult barriers.
- A central information centre should be instituted to establish contact between businesses and the local authorities.
- One-stop shops or centres simplify the contacts that business needs to have with government by streamlining and expediting approval processes and other procedures.
- In order to assist local business, these centres must be staffed by trained officials who are thoroughly familiar with procedural requirements of the local authority,
- One-stop centres will differ in size depending on the scope and needs within a locality.
- For some local authorities, it could be a matter of assigning one official on a part-time basis and creating a central office while other might utilise a number of satellite offices throughout the community, which are staffed according to the local needs.
- These centres can also provide important information on national and provincial

programmes, consumer patterns and other issues

- These centres experience success when they are pursued as a joint venture between the local authority and key stakeholders.
- In the United States, many communities that already have local business service centres choose to locate their one-stop centres within those organisations.
- The resources of the chamber of commerce to provide staffing and technical assistance based upon the experience that larger businesses have gained in working with different spheres of government.

### **5.3 Local Business Service Centres**

One of the best ways that municipalities can assist SMMEs is by working with stakeholders to establish local business service centres (LBSCs). The failure rate among new and small firms is substantial. The need, therefore, for management and business training, counselling, research and other forms of support is critical. Local business service centres are community resource centres that provide these services to help small businesses get on their feet and eventually graduate into formal business enterprises.

Ntsika Enterprise Promotion Agency (NEPA) has put together a programme to fund the training activities of LBSCs. NEPA's funding support for individual service centres decreases over a period of time so that organisations are encouraged to become self-sustainable. NEPA is developing an information package for local business service centres to provide information on tenders, markets, finance and extension services.

### **5.4 Tender Reform**

By reforming the tender process, municipalities can help ensure that funds stay in the local economy and that small business, particularly those from previously disadvantaged communities, gain access to the mainstream procurement activities of local government. Currently, the tender policies of most municipalities tend to favour larger and better-established entrepreneurs. SMMEs often do not have access to the public sector tendering process. On a national and provincial level, tender policies are being reviewed to create systems, which are more open to emerging entrepreneurs.

Problems with some existing tender procedures include

- Emerging contractors (ECs) have difficulty obtaining information on contract opportunities in a timely and accurate manner.
- Many perceive the public sector tendering process as difficult to understand and not entirely transparent.
- Unless contractors and suppliers are placed on the "approved supplier" list they are generally not considered. In most instances these lists have not been updated to include small firms - particularly those from previously disadvantaged communities.
- In the building and civil engineering sectors, emerging contractors are hindered by the requirement of financial security.
- Public tenders for large quantities exclude emerging contractors.
- Emerging contractors face tighter financial constraints and generally carry larger financial risks, and are thus more sensitive to the effects of delayed or late payments.
- Administrative requirements pose logistical problems for emerging contractors, particularly in the preparation of the required tender documents and obtaining the necessary supporting documentation; and
- Contractors are expected to have significant technical, administrative, commercial and managerial skills and resources. New entrants, therefore, find it extremely difficult to participate.

## **5.6 *Utilising Municipal Land, Buildings and Other Public Assets***

- Municipalities encouraging growth and development by creatively utilising land, buildings and other assets owned by them.
- Many municipalities own resources should ensure assets are carefully managed and utilised in promoting economic development.
- Ownership of land provides municipalities with opportunities to leverage investments and encourage certain types of development or target areas to catalyse further growth.

## **5.7 Incubators**

- Disused warehouses or other buildings can be transformed into small business incubators or "hives".
- Incubators are complexes where entrepreneurs are provided with workspace, administrative support, training and other assistance.
- Although the success of any entrepreneur is dependent upon his/her own skill and initiative, incubators can help provide initial infrastructure and advice to guide SMMEs through the difficult start-up period.
- These complexes are developed in partnership with community organisations and can be operated by local authorities, the private sector, NGOs or other organisations.

## **6. CONCLUSION**

In the words of Etienne Nel, Economic Restructuring and Local Economic Development in South Africa

"The successes of LED in South Africa suggest that if the constraints can be addressed, LED endeavours can be significantly expanded. The key policy requirements for LED, if it is to succeed, are:

- LED policy must acknowledge and encourage the participation of a wide range of actors in the local economy. Current policy stresses the role of local government. The place and functions of the private sector, NGOs, CBOs, unions and more specifically of partnerships between key local stakeholders must be properly acknowledged and encouraged.
- A LED fund is necessary to 'kick start' development at the local level. In other countries tax rebates and start-up and training funds are available to either local governments or agencies active in the local development field.
- In smaller towns and rural areas a clear need exists for LED facilitators to encourage local initiative and leadership. Such leadership could either come from the provincial government or from institutions such as the National Business Initiative, or it could be based on available pools of skill, such as universities (many USA universities provide extension support to the communities around them).

- The establishment of a formalized LED structure such as a LED Institute might go a long way to broadening the potential and scope of LED activities. President Mandela announced at the 1998 Presidential Job Summit that ' the government has had no illusions about the massive social problems that our new democracy has to deal with. We know too keenly that government alone cannot address these problems' (Mandela, 1998, p. 1). Given this acknowledgement and the blossoming of LED-type activity in recent decades in the North and the South, the solution to current difficulties with implementing LED in South Africa and a more widespread application of the procedure can be expected.

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